# COMMENT/ *By Sanford Rose*

## Revisiting Diversification

Whatever the ultimate cause of bank failure, it is clear that the proximate cause is deteriorating credit quality. Large banks fail when loan losses so erode earnings that uninsured creditors become frightened and refuse to roll over deposit and nondeposit funds. Small banks fail when rising loan losses cause regulators to declare them insolvent.

In turn, deteriorating credit quality always – yes, always – betokens inadequate diversification. Continental Illinois Bank (now Continental Bank) failed in 1984 because it made the mistake of lending to a group of middle-market borrowers whose business fortunes were too closely intertwined (energy companies). It thus ignored a basic principle of risk spreading.

The Texas banks obviously failed for much the same reasons. BankAmerica nearly failed in the mid-'80s because it lent too much to a group of borrowers – principally agricultural and real estate – who shared a common vulnerability to the threat of disinflation. And many Northeast banks are today imperiled because of overconcentrated real estate portfolios.

The risk in a portfolio of loan assets depends on three factors: (1) the risk of each individual loan asset; (2) the share of the portfolio devoted to each loan asset; and (3) the correlation among loan assets – that is, the extent to which borrower fortunes tend to move together or covary.

Bankers spend a great deal of time assessing individual loan risks through analysis of borrower balance sheets. But they usually devote scant attention to the other two components of risk.

### Trouble Is Unexpected

Balance-sheet analysis will reveal the average or expected probability of loan default. But the true riskiness of a portfolio depends on the unexpected losses – the chances that, in any given year, losses will diverge substantially from their mean probability.

This magnitude is measured by the standard deviation – the square root of the variance of losses from their mean. And the standard deviation of loan losses – the likelihood of unpleasant yearly variations in loan-loss experience – is crucially affected by the extent of portfolio diversification.

The general principle is that as the number of its borrowers increases, a bank reduces overall risks by diminishing its exposure, as a percentage of the total portfolio, to any particular source of potential loss. Hence the variability of losses declines – that is, actual losses deviate less from their expected or mean value. And to the extent that losses become more predictable, it is increasingly possible to offset their impact by prior adjustments in loan pricing.

### Changing the Mix

Just as the bank can lower its risk by reaching out to more borrowers, it can also do so by lending to a group of borrowers who are less interdependent and therefore less likely to default simultaneously.

A bank that not only enlarges the customer base but also changes the customer mix so as to lower, even very slightly, the correlation among borrowers – their mutual dependence on the state of the economy – can often achieve a quite dramatic decline in its standard deviation of loan losses.

Many bankers profess a knowledge of these principles of diversification. Yet few apparently act on this knowledge. For example, while it is admittedly quite difficult for banks to measure the degree of interdependence or correlation in their borrower populations, only a handful of banks make formal efforts to do so, relying instead on such comforting bromides as "we try to avoid undue loan concentrations" or "we lend to a great variety of customers in our service areas."

Such approaches to diversification are patently inadequate. There is no substitute for an attempt, however arduous, to measure the extent to which borrower business destinies are interrelated. And because the fortunes of borrowers in any given region of the country tend to be much more interdependent than those of borrowers selected from different regions, banks usually cannot achieve the requisite degree of diversification by concentration on only one service area.

### Perverse Results

What's more, the fact that banks do no quantitative analysis means that their national loan purchase and sales activities, which are in part designed as a vehicle for improved diversification, may also fall short of achieving the desired objective. Lacking data, banks quite conceivably will sell off loans whose returns are minimally correlated with the other loans in their portfolios and buy loans whose returns are more closely correlated, thereby increasing rather than reducing their risks.

Some years ago, an attempt was made to improve bank diversification by organizing pools of commercial loans. The idea was to link the benefits of loan specialization with those of diversification.

Banks typically argue, with much justice, that their forte is specialization, by which they achieve economies of scale in credit evaluation. But banks can specialize without the need to retain overconcentrated loan portfolios.

Individual banks can originate loans only to companies in industries and in areas about which they have the greatest knowledge. Then they can put these disparate loans into central pools that mirror the national distribution of commercial credits. In turn, they can take back certificates of participation, or proportional shares, in these pools.

This type of pooling is probably the most efficient method of minimizing the degree of borrower interdependence in bank portfolios. It can thus greatly reduce the variability of loan losses.

*See* **BANKERS** *page* **11**

# CRIME BLOTTER/ *By Tom Leander*

## Thrift Agency Brings Charge in Colorado

The Office of Thrift Supervision has filed a complaint against Thomas Rapp of Greeley, Colo., and 11 members of his family for violations of the Change in Bank Control Act.

The OTS charges that the defendants violated the law in acquiring more than 40% of the common stock of First Northern Savings and Loan Association in Greeley in 1985, without giving 60 days' prior written notice.

The OTS complaint alleges that Mr. Rapp made misrepresentations about the extent of his and his family's stockholdings in the thrift when state and federal regulatory agencies inquired into the matter in 1986.

The OTS is seeking a permanent injunction that would require the defendants to sell their First Northern Savings stock.

Mr. Rapp could not be reached for comment. His lawyer, James Cage, a partner at the Denver law firm of Berryhill, Benjamin, Cage & North, said, "The Rapps have attempted throughout their dealings with the OTS and with [the OTS's] predecessor to cooperate fully." Mr. Cage said Mr. Rapps would file an answer to the complaint in federal court on Feb. 19.

The Change in Bank Control Act defines the control of a bank holding company as the power to vote 25% of any class of voting stock of an insured institution.

The complaint, based on evidence obtained by the OTS in cooperation with the Colorado state regulators, alleges that in July 1985, Mr. Rapp and members of his family acquired 53,500 shares of First Northern Savings voting stock.

That, combined with earlier acquisitions, brought the family's holdings to 89,500 shares, representing 45% of the company's total outstanding shares.

* * *

## Fugitive in a Fraud To Return to U.S.

A 27-year-old Kansas City businessman, currently in jail in Hong Kong for carrying a false passport, will be returned to this country to face bank fraud charges, officials of the Federal Bureau of Investigation said.

David Riggs was charged by a federal grand jury last April with 29 counts of defrauding five Kansas City, Mo., banks by obtaining loans for fictitious purchases of audio and visual equipment.

Mr. Riggs allegedly carried out his scam by submitting false invoices to buy the equipment from a dummy company between 1985 and 1987. Neither the company nor the equipment actually existed. The FBI did not disclose how much money Mr. Riggs allegedly defrauded from the banks.

Mr. Riggs fled to the Cayman Islands in June 1987. He was arrested in Hong Kong in January 1989, for using a false Australian passport.

* * *

## Cash to Be Returned In Crazy Eddie Case

Rejecting an argument that repatriation of assets from a foreign bank account will violate the Fifth Amendment right that protects against self-incrimination, a New York federal judge has ordered Eddie Antar, the owner of the defunct Crazy Eddie electronics chain, to return $52 million to the United States.

Mr. Antar, under investigation by the Securities and Exchange Commission for allegedly inflating the stock of his former company, last year transferred the $52 million to Bank Leumi in Israel. U.S. District Judge Nicolas Politan ordered the return of the money pending the outcome of the SEC investigation.

Mr. Antar's lawyer, Justin Feldman, argued that the repatriation of Mr. Antar's assets, which would involve disclosing to the government details of his Bank Leumi account, would violate his Fifth Amendment rights that protect citizens from being forced to testify against themselves. He said that the government has not presented proof that Mr. Antar was involved in fraud.

But Judge Politan rejected the argument, and said that the "bizarre" way Mr. Antar transferred his assets to Israel indictated he would be likely to "pick up and run, and the lord knows where," if he loses the case. The judge said Mr. Antar cleaned out his New York accounts by buying treasurer's checks in "bizarre amounts" such as $2,000,896.66.

* * *

## Sovran Branch Is Hit 3 Times by One Man

An unidentified man robbed the same Sovran Bank branch in Washington three times in three weeks last month.

Detective Robert Flatley of the Washington police said that during each heist, the man, wearing a pair of sunglasses and a wool cap, walked into the Sovran branch on Martin Luther King Jr. Avenue, warned a teller that he had a gun, and demanded money. After each heist, he fled on foot. The bank would not disclose the amount of cash that the repeat offender glommed. Police are still looking for suspects, police said. □


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# CAPITAL

## *S&L Bailout Seen Hurting Branch Sales*

By GORDON MATTHEWS

NEW YORK — Sales of branch offices, one of the few capital-raising avenues open to many thrift institutions, have been hurt by the thrift law, and even more pain could be on the way, observers say.

"The law created a glut of branch sellers, and few buyers because of the capital restraints on goodwill," said Linda Farrell, senior vice president of Kaplan Smith & Associates, a consulting company in Glendale, Calif., that is active in branch sales.

"Premiums at mediocre or low-quality branches are down," she said, but top premiums of up to 7% of deposits can still be fetched for large, well-located branches in growing areas.

"Not many desirable branches have been offered by federal regulators, and prices on the best offices are still what I would have expected six months or a year ago," she noted.

But that could change. Since yearend, regulators have seized some major institutions with large branch networks representing sizable slices in their markets. Sales of those branches, or even the waiting period before they are sold, could affect all other branch sales.

**Bearers of Glad Tidings**

While not a panacea, branch sales can bring a double helping of good news for thrifts trying to meet the stricter capital requirements under the thrift law, known formally as the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

With limited capital market access, many thrifts are shrinking themselves through sales of assets as part of their capital adequacy plans. And for many thrifts, branch networks are the biggest and best assets available.

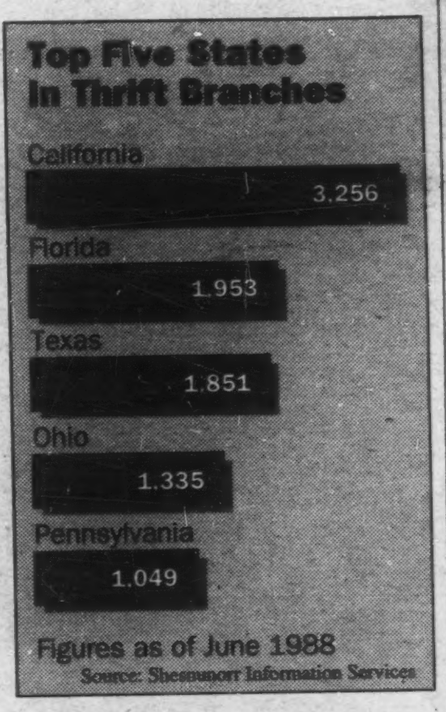
There are fears that all branch prices could be depressed by the sale of branches owned by such major institutions as Centrust Savings Bank, Miami; City Federal Savings Bank, Bedminster, N.J.; Empire of America Federal Savings Bank, Buffalo; and Atlantic Financial Federal, Bala-Cynwyd, Pa.

All have been seized by regulators since December and placed in the hands of the Resolution Trust Corp..

**RTC Imposes Uncertainties**

Centrust, Florida's largest thrift, was to have sold 2.4 billion of deposits in 63 branches to Great Western Bank, Los Angeles. But the RTC takeover has made that deal uncertain.

The largest thrift in New Jersey, City Federal, has a statewide, 77-branch network. It is one of the state's largest branch systems and includes many desirable locations. If potential bidders decide to wait for the sale of this franchise, other branch sales could be depressed.




"Our experience is that we haven't yet seen a decline in thrift branch premiums, but everyone expects an impact from the City Federal situation," said Michael M. Horn, a former New Jersey state banking commissioner who is now executive vice president of Ryan, Beck & Co.

Empire of America has 125 branches in New York, California, Florida, Michigan, and Texas. Three of those states are among the top five in thrift branches.

Branch sales in the Northeast could be large in number, but the economic slowdown there is adding to troubles of banks as well as thrifts. Bank of New England Corp., Boston, has been trying to market some branches as part of a program to improve its capital position.

Premiums paid for branches vary widely. The normal range in most cases is a 4% to 6% premium on deposits being acquired, Mr. Horn said.

The largest branch deal so far has been the sale of $5.2 billion of deposits in 54 branches by Meritor Financial, Philadelphia, to Mellon Bank Corp., Pittsburgh. In that $3.55 million deal, Meritor received a healthy 6.5% premium for some of its best branches.

* * *

## Rumblings from Drexel

The credit markets were roiled Monday with rumors that Drexel Burnham Lambert Group had lost its bank financing and may be filing for bankruptcy. At least one lender may have withdrawn bank lines used to back the Wall Street firm's commercial paper, sources said, and pulled other short-term funding.

"I assume that we have the normal banking lines regarding that paper," said Drexel spokesman Stephen Anreder, adding that he does not comment on rumors. In a prepared statement, Drexel announced its intent to find a "major investor or merger partner for the firm."

In December, shortly after Standard & Poor's Corp. lowered the credit rating on Drexel's commercial paper, the firm had about 2% of its total debt, or $500 million, of outstanding paper. The rest of its borrowings came from bank loans, repos, and long-term debt, Mr. Anreder said at the time.

— Jed Horowitz

# DEALS

## Bank Group Full for Holiday Unit

By LISABETH WEINER

Hard-fought efforts to arrange bank financing for Promus Companies Inc., a subsidiary newly spun off from Holiday Corp., were finally completed over the weekend when Citibank, Bankers Trust, and Credit Lyonnais said they would join Sumitomo Banking Ltd. in providing $1.01 billion to the company.

Commercial banking sources said the units of Citicorp and Bankers Trust New York Corp. started negotiating for a spot on the deal last week. Each of the banks will assume one-quarter of the deal – about $252 million – and each of the banks will carry the title of managing agent.

Sumitomo holds $400 million in letters of credit for the company that will be assumed by the new credit. Since December, Sumitomo had been billed as the lead on the deal. Although negotiations with other banks had been intense and dragged on for some time, no final deal could ever be structured.

Banking sources familiar with the deal believe that Promus asked Citibank and Bankers Trust to join the negotiations last week because time was running short. The company needs the money to pay a $30-a-share dividend on Feb. 22.

"I think, after a while Promus said, 'Listen, we need to have this money. Who is capable of doing it? Citibank and Bankers Trust are two players who can move quickly and have the strongest syndication capability,' " said one commercial banking source close to the transaction.

Sumitomo apparently ran into problems negotiating with other banks because it had promised the company a cheap transaction. For instance, Sumitomo had the deal priced early on at prime plus 75 basis points. Up-front fees were initially set at 1.5% to 1.75%. The deal now bears interest at prime plus 150 basis points or the London interbank offered rate plus 250 basis points. Although the company did not disclose the up-front fees, sources believe they are now in the neighborhood of 2.25% to 2.5%.

The apparent losers in the contest are Bank of New York and Bank of Nova Scotia, which were known to be in serious discussions with Sumitomo for a position in the deal since last December.

At any event, commercial bankers are confident this will be a very successful selldown.

"Given the emptiness of the market, this will go O.K.," said the banker.

The deal consists of a $400 million letter of credit that supports outstanding bonds, a $410 million seven-year reducing term loan, and a $200 million five-year revolving credit/term loan facility. Promus will pay an annual letter-of-credit fee of 2.5% for the existing $400 million letter of credit and an annual commitment fee of 0.5% on the unused portion of the term loan and revolving credit facilities.

* * *

### Bankers Trust Organizes Mosler Recap Syndicate

Bankers Trust is looking to assemble a syndicate to aid in providing an $80 million loan for the recapitalization of Mosler Inc., a manufacturer of safes and security devices.

Commercial banking sources said the unit of Bankers Trust New York Corp. could easily have provided the entire loan itself. But given today's uncertain markets and the disdain toward debt, no bank is anxious to finance a transaction alone, especially when it's for a highly leveraged deal.

The $80 million term loan will be replaced by a $90 million permanent facility that will comprise an $80 million term loan and a $10 million revolving credit agreement.

Pricing on the deal is at the prime lending rate plus 150 basis points or the London interbank offered rate plus 250 basis points. The company will pay a commitment fee of 0.5% on the unused portion of the financing.

Along with the bank debt, the deal includes the assumption of $80 million of senior subordinated debt that was used in 1986 for the company's leveraged buyout, the issuance of $20 million of junior subordinated pay-in-kind notes, and $10.4 million for the assumption of an employee stock ownership plan.

In addition, $25 million of equity will be kicked into the deal; $14 million of this sum will come Kelso Investment Associates, one of the owners of the company; $8 million from management; and $3 million from an ESOP.

— Lisabeth Weiner

* * *

### Adler & Shaykin LBO Fund Draws Bank Investments

Commercial banks are still putting money into leveraged buyout funds, even though the market for buyouts has hit a lull.

The latest buyout fund raised by Adler & Shaykin, the $178.35 million Adler & Shaykin Fund II LP, got investments from five banks, according to Leonard Shaykin, managing partner. Two of the banks, Manufacturers Hanover Trust Co. and First Fidelity Bank, have invested in previous funds. And the New York buyout firm added three new investors – Long Term Credit Bank of Japan and the banking units of Chemical Banking Corp. and Mellon Bank Corp.

Commercial banks invest in buyout funds partly for the returns, which have historically been over 30%, but more for the opportunity to participate as senior lenders in deals. Often banks that invest in a firm's fund get the right to a first look at deals from that firm.

Mellon put between $5 million and $10 million into five different funds, according to Jamie Stewart, an executive vice president, and is not looking for any more such investments.

"We picked five funds that we thought were compatible with the type of deals that we want to do," Mr. Stewart said.

— David Neustadt

### Bank Of Nova Scotia Top Foreign Bank In U.S. Loan Participations

July 1, 1988, to June 30, 1989; dollars in billions

| Rank | Bank | $ Volume[1] | # Deals | Percentage of Deals[2] |
|---|---|---|---|---|
| 1 | Bank of Nova Scotia | $126.675 | 158 | 39.2% |
| 2 | Bank of Tokyo Ltd. | 115.428 | 107 | 35.7 |
| 3 | Mitsubishi Bank Ltd. | 113.371 | 102 | 35.1 |
| 4 | Fuji Bank Ltd. | 113.275 | 100 | 35.1 |
| 5 | Sanwa Bank Ltd. | 107.701 | 80 | 33.3 |
| 6 | Toronto Dominion Bank | 105.785 | 123 | 32.7 |
| 7 | Industrial Bank of Japan | 102.342 | 94 | 31.7 |
| 8 | Bank of Montreal | 99.892 | 117 | 30.9 |
| 9 | Societe Generale | 97.996 | 85 | 30.3 |
| 10 | Credit Lyonnais | 96.110 | 76 | 29.7 |

[1]Each bank credited with the full amount of each deal.
[2]Percentage of all deals by volume collected by Loan Pricing Corp.

Source: Loan Pricing Corp.

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# Real Estate Woes Open Door for Other Lenders

By DAVID NEUSTADT

NEW YORK — Regulatory warnings about the dangers of real estate lending have clearly put a crimp in the market, but some institutions see that as a chance to gain business.

The latest caution came last week, when the Comptroller of the Currency told nationally chartered banks to tighten up on real estate loans. That came on the heels of highly publicized loan woes at a number of banks, particularly in New England.

The warnings and losses have had a sobering effect on lenders, bankers said. "Right now, real estate lending in general as an activity is in disarray, especially construction lending," said Robert Mueller, an executive vice president at Bank of New York.

**ANALYSIS:** *Follow-up on the news*

But while many banks have slowed lending or withdrawn from the market completely, some institutions are stepping in, albeit gingerly.

"We see very few players out there – it is a tremendous opportunity," said William Evans, a first vice president at Swiss Bank. "We will never completely replace U.S. banks, but we can make substantial inroads in this period."

### Foreign Banks Hiring

Japanese, Canadian, and European banks are hiring some experienced real estate lenders, according to Edward Dellon, a managing partner at Dellon & Taras Partners, a New York executive search firm that specializes in real estate.

The new players are not rushing in to fill the void, however. Some Japanese banks, especially the trust banks, already have a great deal of Japanese real estate loans on their books. Indeed, three Japanese trust banks were recently downgraded because of their real estate exposure in their home country. That is expected to limit their willingness to take on similar loans here.

### Japanese Less Aggressive

"Japanese banks have been more aggressive in the past but will be less aggressive this year," a Japanese banker said.

And the weak market will restrain everyone.

"There is a flight to quality," said Mr. Evans of Swiss Bank. "Only the better deals are getting done, and even those require higher pricing and tougher covenants."

"There are people looking for opportunities, but they are do-

*See* **REAL** *page* **11**

# INSIDE NEWS

## INTERNATIONAL

**SPECULATION IS** mounting that Hongkong and Shanghai Banking Corp. will merge with Midland Bank PLC to form the largest non-Japanese bank in the world. *Page 18*

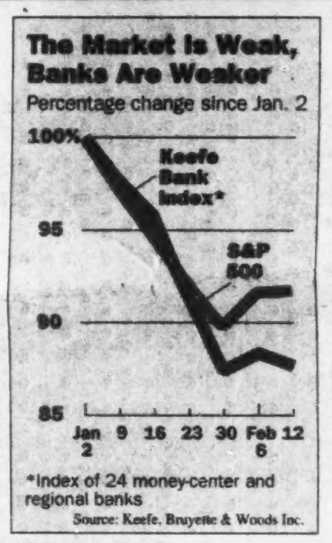
## CONSUMER

**BANK OF AMERICA** is launching a program designed to boost auto loans by helping consumers shop for the best car deals and avoid unpleasant haggling with salespeople. *Page 8*

## TECHNOLOGY

**TRUST DEPARTMENTS** are beefing up computer systems to adapt to clients who are demanding more information more often, and getting it through PCs. *Page 14*

## FINANCE




**AFTER BADLY** underperforming the stock market in January, share prices of banks are continuing to drift lower. *Page 24*

## COMMENT

**EMPLOYEES MIRROR** the attitudes of their managers and the culture in which they work, write Michael E. Volpe and Ronald L. Koprowski. *Page 4*

## OTHER NEWS

**BANKS IN THE WEST** generally posted good earnings gains in the fourth quarter, thanks to strong loan volume and stable interest margins. *Page 2*

**THE FDIC** will hold a rare public hearing March 14 on its proposal to cap deposit insurance at $100,000 for all deferred compensation plans. *Page 2*

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# Public Prefers Check Copies To Originals, Survey Finds

By KAREN GULLO

NEW YORK — Most consumers would prefer copies of checks produced by imaging systems to the original checks that are returned with monthly statements, an opinion survey by Trans Data Corp. found.

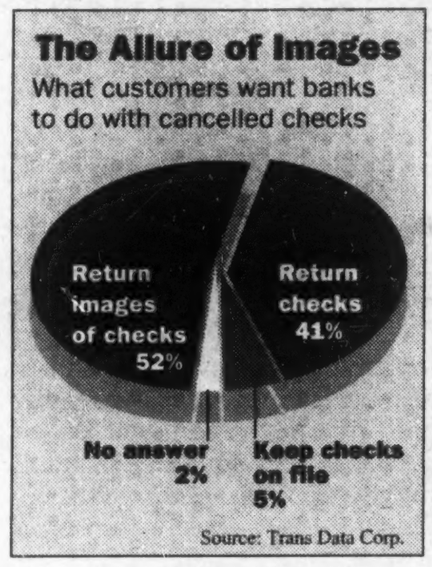
The survey, done in November and December, also found that many consumers would be willing to pay for the check-image option. And many people who prefer return of the original checks would accept images if they were less costly.

The study is one of the first to gauge consumer reaction to the emerging technology, in which electronically reproduced images substitute for canceled checks and similar documents.

### Path to Competitive Edge?

Most previous studies have established only that image processing can substantially reduce back-office costs. The Trans Data findings indicate financial institutions that move quickly into image processing could also gain a competitive edge in consumer marketing.

Trans Data, a research affiliate of the *American Banker*, found that 52% of consumers preferred to get copies of check images, while 41% preferred return of the actual checks.


The Allure of Images
What customers want banks to do with cancelled checks
Return images of checks 52%
Return checks 41%
No answer 2%
Keep checks on file 5%
Source: Trans Data Corp.

Only 5% preferred a safekeeping service, in which banks would hold onto the checks and send the customers a document listing check numbers and amounts. Expressing no preference were 1% of the respondents, and 1% said they didn't know.

### Fee-Income Opportunity

The apparent preference for images suggests that these systems can "create new fee-income opportunity and carry significant market share implications" in addition to cost-saving benefits, said Steven Matzke, research associate at Trans Data in Wayne, Pa.

*See* **SURVEY** *page* **3**

# Bank Squeeze Forced Hand Of Faltering Drexel Parent

By LISABETH WEINER and JED HOROWITZ

A refusal by commercial banks to lend money to the holding company of Drexel Burnham Lambert Inc. precipitated Drexel's decision to consider filing for bankruptcy protection, bankers said Tuesday.

They said that Drexel met with them late Monday evening, pleading for funds to pay off commercial paper that was coming due. But the bankers did not want to increase their exposure to the Drexel holding company, whose portfolio of stocks and bonds is less creditworthy than that of its broker-dealer.

"Why would we lend money to the holding company?" one money-center executive asked. "It has no cash-generating capability."

With the exception of Citibank – which has a $100 million exposure to Drexel Burnham Lambert Group, the holding company – banks lend primarily to the broker-dealer subsidiary. Their cumulative loans are

*See* **CREDIT** *page* **16**

# *The Last Days of Danny Wall*

By JIM McTAGUE

WASHINGTON — Danny Wall is going out with a whimper.

Vilified by fellow regulators, denounced by members of Congress, and taunted by the press for his handling of the savings and loan crisis, the nation's departing thrift regulator still refuses to strike back.

Finger-pointing goes against his style, a somber and reflective Mr. Wall said during a recent interview.

"I don't believe in bringing other people down," he said. "Part of it's my Midwest upbringing. And part of it is my religion."

"Dan is the G. Gordon Liddy of the thrift crisis," said one industry insider. "He's willing to hold his hand to the fire rather than say anything."

The Office of Thrift Supervision is in the midst of a high-profile investigation of the role played by Neil Bush, the President's son, as the director of a Denver thrift that failed.

But Mr. Wall insisted it is not motivated by revenge against the President for failing to defend him. "I haven't

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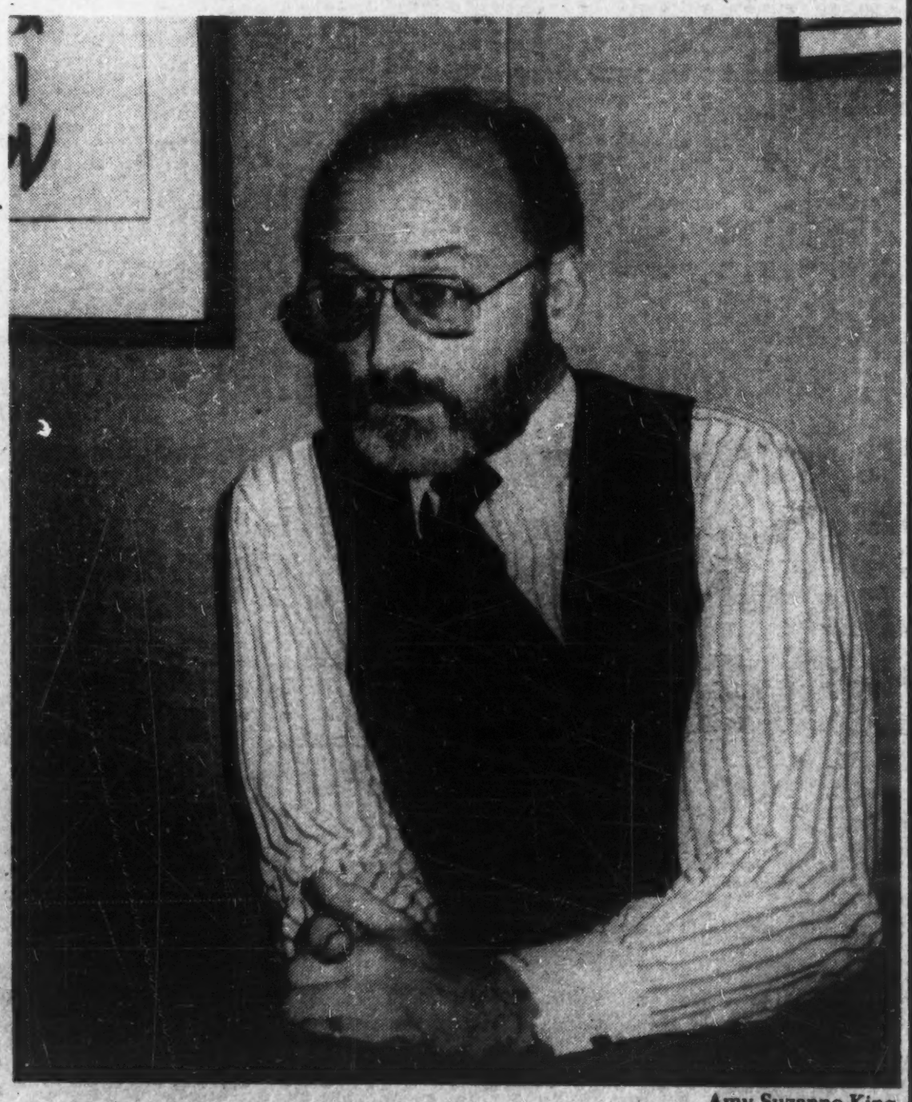

Amy Suzanne King

**TIME TO STEP DOWN:** M. Danny Wall, outgoing director of the Office of Thrift Supervision, seems resigned to his role as the scapegoat in the thrift crisis.

# PEOPLE *in the news*

## *Securities Industry Group Losing Its Chief Lobbyist*

By BARBARA A. REHM

WASHINGTON — After 14 years with the Securities Industry Association, Don Crawford is moving on.

Mr. Crawford resigned as the group's top lobbyist here last week. SIA's official release explains that Mr. Crawford resigned his post as senior vice president and director of government relations "to avoid potential conflict while considering certain job offers in Washington."

In an interview Tuesday, Mr. Crawford said he did not think he had much of a future at the SIA. "I'm obviously not going to be president of this association any time soon," he said. "I don't even think that if Ed were to leave tomorrow they would offer me the job."

Edward I. O'Brien is president of the New York-based SIA. He could not be reached for comment.

In a major policy shift for the SIA, the trade group in December said it would no longer oppose the dismantling of the Glass-Steagall Act, which separates commercial and investment banking. Washington sources suggested the policy change had spurred the trade group to seek new leadership in its lobbying. "The powers that be, after pushing through their restructuring plan, simply wanted a change," said one Senate staffer.

Mr. Crawford said he had been considering for a year whether to leave the trade group to become a partner with a law firm here. "I'm turning 50, we have a new chairman, and the time had come," he said.

"I've had some preliminary conversations, but I really didn't want to engage much until I put these people on notice. Maybe I'm old fashioned," he said of his job search to date.

No successor has been named and Mr. Crawford plans to continue working for SIA for a couple months to "provide an orderly transition."

Mr. Crawford said it was unlikely that any of the three lobbyists working for him – Steve Small on taxation, John Paret on securities, and Jack O'Rourke on banking – would be promoted to take his place.

"The current thinking is that they will be looking outside the SIA," he said. "There is probably a desire to bring in a high-profile lobbyist."

The SIA does a large amount of its lobbying through several law firms here, including Royer, Mehle, and Babyak, and O'Connor & Hannan.

Mr. Crawford is well-regarded here. "I think he is a real good guy," said J. Denis O'Toole, a lobbyist with the U.S. League of Savings Institutions. "I guess things are changing in the SIA as they are in the rest of the financial markets."

Upon hearing the news, John Betar, a lobbyist with the Association of Bank Holding Companies, said: "That's bad because I think Don's a top notch guy."

Mr. Crawford, 49, joined SIA in 1976 as vice president of regulatory relations and moved up to director of the government relations division in 1979.

Before joining the SIA, Mr. Crawford was assistant general counsel from 1972 to 1976 for Shearson Hayden Stone Inc., a predecessor of the present Shearson Lehman Hutton. He had been a member of the Hayden Stone staff. He is a graduate of Villanova University and holds a law degree from the University of Maryland.

## *Strickland, SunTrust Banks CEO, Taps James Williams as Successor*

Robert Strickland, chairman and chief executive of SunTrust Banks Inc., said Tuesday that he would recommend to the board that James. B. Williams be elected president and chief executive following the company's annual meeting in April.

Mr. Williams, 56, is currently vice chairman.

Mr. Strickland, who will be 63 in May, said the elevation of Mr. Williams to CEO was intended to insure "a smooth transition of responsibilities to our senior management." The company's bylaws require that Mr. Strickland retire in June, 1992.

As part of that transition, Mr. Strickland said he would recommend that SunTrust's president, Joel R. Wells, Jr., 61, be elected chairman.

Mr. Strickland, who will remain chairman of the executive committee, said he planned to continue "as an active member of the senior management group" until he retires.

Mr. Strickland, Mr. Wells, and Mr. Williams have held their current positions since the company was established in 1984 following the merger of Sun Banks Inc. and Trust Company of Georgia in 1984.

After graduating from Emory University with a bachelor's degree, Mr. Williams joined Trust Company of Georgia in 1957 as a member of the bank's management training program.

Mr. Wells, who holds a law degree from the University of Florida, was a lawyer in Orlando for several years. □

# Western Banks Post Strong Gains

## Heavy Loan Demand, Stable Interest Margins Cited

By SAM ZUCKERMAN

SAN FRANCISCO — Fueled by strong loan volume and stable interest margins, healthy profit gains were reported by leading banking companies in most of the West.

But analysts say a slowdown in the economy and rising commercial vacancy rates may signal an end to boom times this year.

Banking giants BankAmerica Corp., Wells Fargo & Co. and Security Pacific Corp. reported record profits in the fourth quarter, as did various small and medium-size institutions, including U.S. Bancorp, Portland, Ore., and Union Bank, San Francisco.

**4th-Quarter Earnings in the West**

Assets in billions, net income in millions

| | Assets 12/31/89 | Assets 12/31/88 | Net income 4Q '89 | Net income 4Q '88 | Percent change |
|---|---|---|---|---|---|
| BankAmerica | $96.8 | $94.6 | $270 | $265 | 1.9% |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| First Interstate | 59.1 | 58.2 | (344.3) | 144.0 | NA |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| U.S. Bancorp | 17.0 | 14.4 | 39.6 | 34.9 | 10.5 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Valley National | 10.5 | 11.8 | (12.8) | 28.7 | NA |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Source: Company reports

**Trouble in Arizona**

Indeed, the only major trouble spot was Arizona, where banks are still reeling from the collapse of the state's real estate market.

Interest margins stayed relatively stable for most western banks in the fourth quarter, compared with a big falloff the previous quarter. Analysts noted that many banks waited to lower their prime lending rate until after the new year, suggesting that a renewed margin squeeze is possible in the first quarter of 1990.

Although the expected crash in California real estate prices – a major Wall Street concern at the end of 1989 – failed to materialize, analysts cautioned that

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# Insurance Issue Spurs Rare FDIC Hearing

By BARBARA A. REHM

WASHINGTON — Under pressure from thrifts that stand to lose as much as $4 billion of deposits, the Federal Deposit Insurance Corp. took the unusual step Tuesday of scheduling a public hearing for March 14 on its plan to cap deposit insurance at $100,000 for all deferred compensation plans.

The thrift-bailout law put the FDIC in charge of both the bank and thrift insurance funds. Because each fund offered slightly different coverage, the FDIC in December proposed regulations to standardize the coverage.

One part of those regulations would scale back insurance that thrifts currently offer to employees of state and local governments and certain nonprofit, tax-exempt organizations that save for their retirement through deferred compensation plans.

Banks may insure these plans only up to $100,000, but thrifts may insure each participant in the plan up to $100,000. As a result, the banking industry has little of the $20 billion worth of deposits in deferred compensation plans, while the thrift industry has about 20% of the market, according to thrift industry estimates.

The FDIC says it is not sure of the size of the market for these plans, but it is responding to the outcry it has heard from thrifts that hold deposits from deferred compensation plans and from the state and local governments that sponsor them.

The hearing will be the agency's first since July 12, 1985, when it held one on a regulation to permit banks into real estate development and insurance underwriting. That plan was later withdrawn.

The thrift industry is hoping for a similar victory. The industry needs all the deposits it can get, and these plans – called "457 plans" after the section in the tax code that established deferred compensation plans – offer a stable source of funds.

"There is no doubt this is a growing business," said Gary G. Gilbert, director of banking agencies liaison at the U.S. League of Savings Institutions. "These days how many sources of real stable deposits can you rely on?"

In addition to scheduling the hearing, the FDIC on Tuesday postponed the deadline for commenting on the plan to March 23. □

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